



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-80 –Methods and Standards for Establishing Payment Rates-Other Types of Care

Department of Medical Assistance Services

September 15, 2006

Summary of the Proposed Regulation

Pursuant to Items 326 VVV, WWW, and XXX of the 2005 Acts of the Assembly, the proposed regulations permanently increase Medicaid payments for obstetrical and gynecological (OB/GYN) services by 2.5 percent, for pediatric physician services by 5 percent, and for adult primary and preventative care services by 5 percent effective May 1, 2006. The proposed changes have been already in effect under emergency regulations.

Result of Analysis

The benefits likely exceed the costs for most of the proposed changes.

Estimated Economic Impact

Pursuant to Items 326 VVV, WWW, and XXX of the 2005 Acts of the Assembly, the proposed regulations permanently increase Medicaid payments for obstetrical and gynecological (OB/GYN) services by 2.5 percent, for pediatric physician services by 5 percent, and for adult primary and preventative care services by 5 percent effective May 1, 2006. The proposed changes have been already in effect under emergency regulations.

The proposed changes are estimated to increase payments to OB/GYN, pediatric, and adult primary and preventative care service providers by approximately \$14.5 million annually. Of these funds, approximately \$7 million is general funds and \$7.4 million is non-general funds.

The impact on approximately 16,200 service providers will be a net increase in their revenues. Increased revenues may or may not improve services as this depends on how the monies are spent. Also, these rate increases may help maintain current level of access to these services.

The net impact on Virginia's economy is likely to be positive because of the federal match. While approximately one half of the funds will come from state resources, the other half will come from the federal government. Thus, the federal match will be a net injection into the state's economy as it does not have a corresponding offset elsewhere and will have a net positive impact on state output.

It appears that physician services category is one of few categories that do not receive periodic rate increases to cope with changes in general inflation, medical inflation, service mix, and other factors that may be relevant. Without periodic rate updates, the rates are adjusted irregularly and the magnitude of the adjustments often appear to be arbitrary. The current methodology may cause discrepancies in the price of physician services relative to all other Medicaid services and adversely affect provider incentives to participate in the program. In theory, the physician rates should be commensurate with the value of services provided. This is generally accomplished by establishing rates in a base year and revising the rate according to the factors affecting the value of the services. In this particular case, significant economic disincentives that may be present as a result of current irregular and arbitrary adjustments to the rates may be avoided by establishing a new reimbursement methodology that takes into account, on a regular basis, changes in the general inflation, medical inflation, service mix, and other relevant factors.

Businesses and Entities Affected

The proposed regulations will increase Medicaid reimbursement rates for obstetrical and gynecological services, for pediatric physician services, and for adult primary and preventative care services. Currently, approximately 16,200 physicians provide services to Medicaid recipients. Of the affected entities, approximately 4,079 are estimated to be small businesses.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

The proposed rate increases will likely have an expansionary effect on the state economy. To the extent increased funding, particularly the federal portion of the increases, is directed

toward purchase of goods and services within the state, there could be a positive effect on demand for labor.

Effects on the Use and Value of Private Property

The proposed regulations are likely to improve revenues and the future profit streams of affected providers. An increase in profits would, in turn, increase their asset values.

Small Businesses: Costs and Other Effects

The proposed regulations are not anticipated to have an adverse impact on small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed regulations are not anticipated to have an adverse impact on small businesses.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.